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**IMPORTANT CalPERS REFUND TAX INFORMATION**

The following consists of summarized tax information and is provided in accordance with Section 402(f) of the Internal Revenue Code. ***AS CalPERS CANNOT PROVIDE SPECIFIC INFORMATION OR TAX ADVICE, PLEASE SEE YOUR TAX CONSULTANT, THE INTERNAL REVENUE SERVICE OR THE STATE FRANCHISE TAX BOARD. FOR ADDITIONAL INFORMATION CONCERNING ROLLOVERS, CONSULT THE APPROPRIATE FINANCIAL INSTITUTION OF YOUR CHOICE.***

**ROLLOVERS** - An "eligible rollover distribution" consists of the taxable portion of a refund of your contributions, including interest, due to a separation from all CalPERS-covered employment. You may avoid current taxation on any portion of the taxable amount of an eligible rollover distribution by rolling over that portion into an individual retirement arrangement (IRA) or another qualified employer retirement plan that accepts rollover contributions. A tax-free rollover of the taxable amount of an eligible rollover distribution may be accomplished in one of the following ways:

**1) Direct Rollover** - You may direct CalPERS to transfer all or any portion of the taxable amount of the distribution to a specified IRA or qualified defined contribution plan that accepts rollovers. It cannot be made to another defined benefit plan, such as CalPERS. However, the portion to be directly rolled over must be at least \$500.00. Taxes will be reportable when you take the money out of an IRA or other qualified plan.

**2) Regular Rollover** - You may take an in-hand distribution and, **not later than 60 days after you receive the distribution**, transfer all or a portion of the taxable portion of the distribution to an IRA or qualified plan that accepts rollovers. Taxes will be reportable when you take the money out of an IRA or other qualified plan.

Even if you plan to roll over the taxable portion of the eligible distribution, unless you elect a **Direct Rollover**, you will only receive 80% of your distribution. Federal tax rules require CalPERS to automatically deduct 20% federal tax withholding from the taxable portion of your refund, if it is over \$200.00.

If you wish to make the Regular Rollover for the full 100%, you will have to make up the 20% difference out-of-pocket. You will also be taxed on the 20% that was withheld. When filing your individual tax return you then can get a refund of the amount withheld to the extent you have no further tax liability.

Early distributions from a qualified retirement plan are subject to an additional 10% federal tax and 2 1/2% California tax on the taxable portion of the distribution PLUS any income tax due on the distribution if it is received prior to age 59 1/2.

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Please be aware, not all distributions are eligible to be rolled over. Any distribution that is part of a series of substantially equal periodic payments made at least annually under a life annuity, over life expectancy or over a specified period of 10 or more years is ineligible to be rolled over. Also ineligible for rollover treatment is the amount of a distribution that is necessary to satisfy the minimum distribution requirements that apply after you separate from employment or you turn age 70 1/2, whichever occurs later.

**EXCEPTIONS TO THE ADDITIONAL TAX** - There are some instances where an individual will be exempt from the additional tax even if they take an early distribution from a qualified retirement plan. They are as follows: (1) receipt of a CalPERS service or disability retirement benefit, paid as a monthly allowance over your/ your beneficiary's life; and (2) a lump sum distribution, if made to a beneficiary because of your death or made to you because of your disability or separation from service after attaining age 55.

**FIVE AND TEN-YEAR AVERAGING / CAPITAL GAIN** - If you receive a lump sum distribution after you are age 59 1/2, you may be able to make a one-time election to figure the tax on the payment by using "5-year averaging". To qualify for 5-year averaging, you must be at least age 59 1/2 and have participated in CalPERS (the plan making the distribution) for no less than 5 years before the year the distribution is made.

If you receive a lump sum distribution and you were born before January 1, 1936, you can make a one-time election, even if you are under age 59 1/2, to figure the tax on the payment by using "10-year averaging" (using 1986 tax rates). Only one election is available to an individual, and if made, eliminates the ability to elect 5-year averaging and capital gain treatment after attaining age 59 1/2. However, any 10-year averaging election made prior to January 1, 1987, and before attaining age 59 1/2, does not count toward your one election.

If you were born prior to January 1, 1936 and you receive a lump sum distribution, any pre-1974 CalPERS contributions you paid (if applicable) may be taxed as long-term "capital gain" at a rate of 20%.

**CALIFORNIA STATE TAX WITHHOLDING** - Whether you elect to receive a refund OR directly roll over your contributions, you may choose to have state tax withheld or not withheld. State tax, if withheld, is 2% of the taxable portion of the refund. An individual also has the right to revoke or change their choice prior to the mailing of their warrant.

For those California residents who do not make a choice, 2% will be automatically withheld for state tax.

For **individuals who reside outside of California**, no state tax will be withheld unless specifically requested. Please be aware that you may still owe California state taxes.

Publications are available from the Internal Revenue Service which provide specific information on special tax treatment on lump sum distributions. If you have state tax liability questions contact the California Franchise Tax Board.